Seven steps to a healthy, happy family foundation

MONEY OUT the DOOR

by
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YOU'VE SET UP THE FAMILY FOUNDATION. You've dutifully followed the instructions from the first issue of THE AMERICAN BENEFACTOR: seek help, take stock, define goals, write rules. The foundation is finally ready for what the elegant professionals call getting money out the door—meeting the legal requirement that at least 5 percent of the foundation's assets be spent annually on grants or grant-related activities. Time to write some checks. And time to climb another flight of steps.

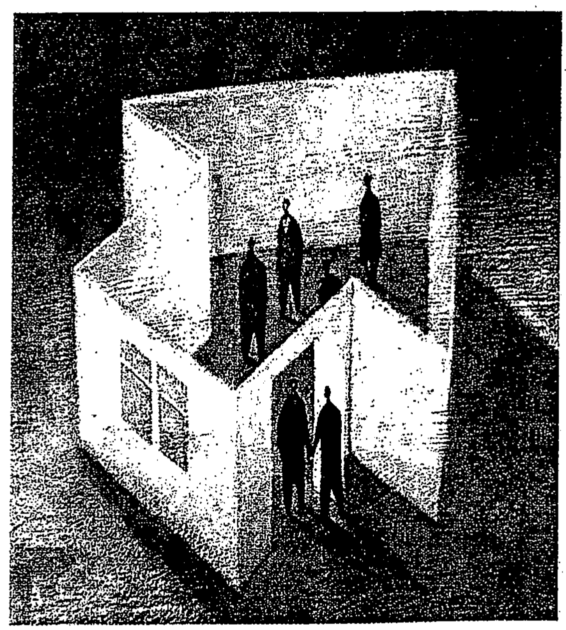
1 Get More Help

You may think your family is ready to walk unassisted. You may be teeth-clenchingly bored with outsiders and their endless values-clarification workshops. But don't go it alone. You'll still need different kinds of nonfamily advice. At least get hold of the helpful materials put out by the Council on Foundations, in particular the Family Foundation's Library Series, which comes in four parts. To order from the Council, call 202-466-6512 (members, $135; nonmembers, $220; small or emerging foundations, $165).

2 Train the Board

A good use of consultants is for the education of the trustees, of whom you are probably one. Even if you and your siblings and cousins think you know what trustees do, you would benefit from the board manuals put together by other family foundations. These manuals are often just three-ring binders with information on history, mission, and process. Eventually, you'll want to write one of your own, in which you are explicit about what is expected of trustees regarding legal and procedural requirements and conflict-of-interest policies.

This is serious stuff, and many a family has come unglued because of boardroom battles waged in the legendary days of start-up. As longtime observer Waldemar Nielsen notes, "Family foundations are often highly combustible mixtures."



One way to avoid fights is to be clear about ethics. Remember that the *trust* in the word *trustee* is a public trust. Happiness and success in foundation life are found within the straight and narrow. No matter what you hear about business as usual, do not offer more than a small stipend to trustees. Curtail lavish perks. Beware of "old retainer" arrangements, in which attorneys or investors who worked with the donor think they're entitled to a well-compensated relationship with the foundation.

"Trustees must be careful not to permit self-interest to clash with duty," says Margaret Mahoney, president of the Commonwealth Fund in New York. "Board members need to forgo advocacy of their own institutions or the pursuit of deep personal interests beyond sharing knowledge." At least half the foundations in America violate this austere rule as a matter of course (I'll-vote-for-your-charity-if-you-vote-for-my-charity). But she's got it right, and you may as well be on the side of the angels.

Alternatively, at least be upfront about it and give each trustee the right to propose grants for an annual total of X dollars. Just put the same value on X for every trustee, and then see to it that all the X's combined don't exceed 25 percent of annual grantmaking.

Trustee training never ends. Update that manual once a year, agree on a system to select and educate new trustees—whether from family or outside—and start involving the next generation. For $10 you can find out how, thanks to a great little booklet put out by the Council of Michigan Foundations. Call 616-842-7080 and ask for "Preparing the Next Generations."

3 Decide on Hired Hands

When do you hire staff? "Not so quickly," says Peter Karoff of the Philanthropic Initiative. He thinks that too many family foundations lose their nerve early in the game and hire a take-charge executive before they've completed the preliminaries of mission-setting and governance. If the foundation intends to make a small number of grants to a few established institutions, for example,

you might want just a lawyer and an accountant on retainer and maybe a secretary to help with the mail.

You will be tempted to employ a family member, and there are many successful small foundations that do. There are also foundations in which putting an heir on the payroll has turned disastrous. What's my bias? Nepotism in governance is good; make sure the family wields a clear majority on the board. Nepotism in employment is bad. Staff must be reviewed, overruled, disappointed, and, if necessary, fired. You don't want to fire your sister.

Remember, too, that you can outsource virtually any service provided by in-house staff: proposal reviews, rejection letters, bookkeeping, annual reports. Among the many capable vendors are Karoff's TPI (617-338-2590), the Tides Foundation in San Francisco (415-561-6400), and Grants Management Associates in Boston (617-426-7172).

But if you control more than $30 million, if you've chosen a challenging program area, or if you simply prefer to exercise direct supervision of labor, it's probably smart to hire somebody. Before you leap into the world of the headhunters, conduct an informal survey among colleagues in family foundations you admire. How do they feel about their staff directors? What might they do differently if they were hiring today?

4 Go Public

All right, out of the closet. Like it or not, your tax returns will be public information and you'll end up in a fistful of directories. You will receive countless letters from worthy organizations, more letters from more organizations than you ever dreamed. You may as well get it right. Pick a name; produce a little publication.

The name reflects the degree to which you want your family name recognizable as the name of a funder. You may want to wear your pedigree proudly or you may prefer to choose a moniker that provides cover. Summit, Abelard, Tortuga, Mayday: some very family-run foundations are not recognizable as such.

The publication should be a device to communicate your goals and solicit appropriate responses. Don't go overboard. The biggest waste of time and money in philanthropy goes into annual reports, splashy brochures, and other publications that nobody but a grant-seeker ever reads. (The grant-seeker reads them the way a deconstructionist picks apart a novel: for tacit motives and hidden agendas.) The things that matter are the financial statements and the guidelines.

Take time on the guidelines. Good guidelines save you and grant-seekers time and paper. Be explicit about what you will and won't fund and how and when you want ▸

information. Don't reinvent the wheel. Ask the Council on Foundations for their sampler of guidelines and then cut and paste your way to a distinctive synthesis.

5 Embrace Rejection

Nineteen times out of twenty you have to say no. Get good at it. Say it fast and clearly, with kindness. The greatest sin of family foundations is that they tend to be far too casual in replying to inquiries that they're going to turn down eventually anyway. Hire somebody if you have to, but don't let the mail pile up, don't postpone decisions, and never string people along.

6 Review Possibilities

Once you've decided not to reject an organization, you owe it a good look. This can work up a sweat, although there's nothing mysterious about the process. You (or your staff) read the proposal, talk to the applicant, follow the literature in the field, trade notes with your colleagues, talk to an expert or two.

On the question of site visits, my old mentor, Arthur Phillips of the Cabot Foundation in Boston, used to say, "Pay a little call? Fine, but you'll only want to fund them." It's hard to venture on an applicant's turf without wanting to be helpful (most groups do worthy work, after all). And it's tough on an applicant to be rejected after playing host. Rule of thumb: Don't make a site visit until you've done your paper and telephone work and figured that the chances of funding are 80 percent or better.

In general, be sensitive about making applicants jump through hoops. Unless you're planning a major gift—$100,000 or more—don't ask organizations to reconfigure what they're doing already. Pick an ongoing project that you like or (heresy to many) just write a check for general support. Blessed is the name of general support among the tribe of nonprofits, and often for good activist reasons: If you want nimble grantees able to exploit unforeseen opportunities, make sure they have unearmarked money.

7 Keep on Learning

Immunize yourself against flattery. "You're entering the world of philanthropy," the old-timer counseled the young program officer. "Henceforth people will laugh at your jokes, nod their heads at your sagacity, and expect you to pay for lunch." Understand that at least half the information from panelists at the annual meeting of the Council on Foundations is moral uplift. Don't get grouchy about it, but don't get fooled either: smugness is the occupational disease of philanthropy.

The only antidote is ceaseless education. Invite in experts and practitioners with competing points of view. Bill Graustein of the William Caspar Graustein Memorial Fund in New Haven did, and he found that "many of the informants were so passionate about their work, and my initial perspectives were so challenged and stretched, that I felt like I was being pulled by my lapels across the table into the discussion." These discussions can take place at both regular meetings and special annual retreats; just make sure they stay intellectually well-ventilated.

Nine months after you approve your first grant, you will have to assume the chores of evaluation; be assured that the grantee will be looking for bigger money in year two. Think of these evaluations as another form of learning, a chance to measure the distance between promise and performance. The balance you need to look for lies between slippery and vague references to general progress and overly precise bean-counting that misses the forest for the trees.

Finally, you learn from working with your colleagues. Rare is the family foundation that has a program area all to itself or that can afford to make a big impact without putting some money into a pool. And coalitions imply trading of information, exchanging advantages and concessions. "If thou wouldst leverage, be thou leverageable," as Lisa Goldberg of the Revson Foundation puts it. You learn a lot from these joint efforts and from the numerous meetings and phone calls they require. Just remember that even the best grant is a good guess; take the work seriously, but not yourself.

Conn Nugent is the managing partner of the Liberty Tree Alliance, a network of writers and scientists working on natural conservation.